

December 2006

## **Flash Report**

# The Employees' Retirement System of the County of Milwaukee

**MERCER**

Investment Consulting



Marsh & McLennan Companies

## Trustees' Summary

The Total Fund had an aggregate market value of approximately \$1.6 billion at the end of December. The Total Fund gained 0.8% during the month, matching the Reference Index.

The large cap domestic equity market, as measured by the Russell 1000 Index, advanced 1.3% during the month and small cap equity, as measured by the Russell 2000 Index, gained 0.3%. Value outperformed growth in both the large cap and small cap arenas.

The international equity markets gained 3.1% during December, as measured by the EAFE Index of developed markets. Emerging market equities, as measured by the MSCI Emerging Markets Index, advanced 4.5%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, declined 0.6% during the month. High yield issues led the broad market gaining 1.1%, as measured by the Merrill Lynch High Yield Index.

## Recommendations and Comments

- The Fund is slightly underweight core fixed income and slightly overweight high yield fixed income, relative to the policy.
- The Fund was rebalanced during December as \$66 million was added to the Mellon Capital Management Fixed Income Index Fund with \$33 million sourced from Boston Partners and \$33 million sourced from the Mellon Capital Management Large Cap Growth index Fund.
- This flash report was adjusted to reflect the rebalancing actions described above. (The trades settled in early January).
- In addition to rebalancing, \$10 million was sourced from Boston Partners during December to fund benefit payments.
- Hotchkis and Wiley will give a due diligence presentation during the January meeting.
- In January, Westfield announced that Robert Flores, a senior technology analysis, joined the firm. While Mercer IC sees the addition of Flores as a positive, turnover issues continue to be the main concern with this strategy.

**MANAGER REPORTED PERFORMANCE**  
As of December 31, 2006

	Assets (\$ millions)	December	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,613.36	0.8	14.2	14.2	12.7	11.1	7.3	9.5	—	
vs. Composite Market Index		0.8	13.7	13.7	11.0	9.7	6.1	8.7	—	
CPI + 4% (1 Month in Arrears)		0.2	5.7	6.0	7.0	6.6	6.6	6.4	—	

**LARGE CAP VALUE EQUITY MANAGER**

Boston Partners	126.39	2.4	19.8	19.8	16.3	10.0	10.5	11.0	12.9	8/1/95
Boston Partners - Net		2.4	19.6	19.6	16.1	9.8	10.3	10.7	12.7	
vs. Russell 1000 Value + 1%		2.3	23.2	23.2	16.1	11.9	8.8	12.0	13.6	
S&P 500 + 1%		1.5	16.7	16.8	11.4	7.2	2.1	9.4	11.3	
CPI + 6.5% (1 Month in Arrears)		0.4	8.3	8.5	9.5	9.1	9.1	8.9	9.0	

**LARGE CAP GROWTH EQUITY MANAGER**

Mellon Capital Management - Ru 1000 Growth Index	72.48	0.3	9.1	9.1	6.9	2.8	N/A	N/A	0.7	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		0.3	9.1	9.1	6.9	2.7	N/A	N/A	0.7	
vs. Russell 1000 Growth		0.3	9.1	9.1	6.9	2.7	-4.9	5.4	0.6	

**LARGE CAP EQUITY INDEX**

Mellon Capital Management - S&P 500	119.55	1.4	15.8	15.8	10.5	6.2	1.2	8.5	11.1	4/13/95
Mellon Capital Management - S&P 500 - Net		1.4	15.8	15.8	10.5	6.2	1.2	8.5	11.0	
vs. S&P 500		1.4	15.8	15.8	10.4	6.2	1.1	8.4	11.0	

**MID CAP VALUE EQUITY MANAGER**

Hotchkis & Wiley	34.37	1.3	17.3	17.3	N/A	N/A	N/A	N/A	15.4	2/18/05
Hotchkis & Wiley - Net		1.2	16.3	16.3	N/A	N/A	N/A	N/A	14.5	
vs. Russell Mid Cap Value + 1%		1.1	28.4	21.2	19.8	16.9	15.3	14.6	18.3	
CPI + 5.7% (1 Month in Arrears)		0.3	7.6	7.7	8.7	8.3	8.3	8.1	8.6	

**MID CAP GROWTH EQUITY MANAGER**

Artisan Partners	34.06	-0.4	10.4	10.4	12.3	7.3	N/A	N/A	5.7	6/12/00
Artisan Partners - Net		-0.5	9.5	9.5	11.3	6.4	N/A	N/A	4.8	
vs. Russell Mid Cap Growth		-0.9	10.7	10.7	12.7	8.2	0.6	8.6	-1.1	
CPI + 5.7% (1 Month in Arrears)		0.3	7.6	7.7	8.7	8.3	8.3	8.1	8.2	

(1) Total Fund returns represent actual returns through 9/30/2006 and estimated performance thereafter.

Policy Measures are Highlighted

**MANAGER REPORTED PERFORMANCE**  
**As of December 31, 2006**

<b>MID CAP CORE EQUITY</b>	<b>Assets (\$ millions)</b>	<b>December</b>	<b>Year To Date</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>7 Yrs</b>	<b>10 Yrs</b>	<b>Since Inception</b>	<b>Inception Date</b>
EARNEST Partners	34.00	-0.8	10.9	10.9	N/A	N/A	N/A	N/A	13.1	2/18/05
EARNEST Partners - Net		-1.0	10.1	10.1	N/A	N/A	N/A	N/A	12.3	
vs. Russell Mid Cap Index + 1%		0.1	16.2	16.3	17.0	13.9	10.4	13.1	16.0	
CPI + 5.7% (1 Month in Arrears)		0.3	7.6	7.7	8.7	8.3	8.3	8.1	8.6	
Reinhart & Mahoney	13.27	1.4	22.2	22.2	N/A	N/A	N/A	N/A	17.2	2/18/05
Reinhart & Mahoney - Net		1.4	21.5	21.5	N/A	N/A	N/A	N/A	16.6	
vs. S&P 400		-0.5	10.3	10.3	13.1	10.9	10.1	13.5	12.1	
CPI + 5.7% (1 Month in Arrears)		0.3	7.6	7.7	8.7	8.3	8.3	8.1	8.6	
<b>SMALL CAP EQUITY MANAGERS</b>										
Westfield Capital Management	49.02	-1.1	11.4	11.4	9.6	9.1	N/A	N/A	6.0	2/6/01
Westfield Capital Management - Net		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
vs. Russell 2000 Growth		-0.2	13.3	13.3	10.5	6.9	-0.2	4.9	5.4	
CPI + 5.9% (1 Month in Arrears)		0.3	7.8	7.9	8.9	8.5	8.5	8.3	8.3	
AQR	43.49	0.4	N/A	N/A	N/A	N/A	N/A	N/A	5.8	10/2/2006
AQR - Net		0.4	N/A	N/A	N/A	N/A	N/A	N/A	5.8	
vs. Russell 2000 Value		0.9	23.5	23.5	16.5	15.4	16.2	13.3	9.0	
Russell 2000 + 2%		0.5	18.4	20.4	15.6	13.4	9.9	11.4	11.9	
CPI + 5.9% (1 Month in Arrears)		0.3	7.8	7.9	8.9	8.5	8.5	8.3	0.3	
<b>INTERNATIONAL EQUITY MANAGERS</b>										
Capital Guardian	93.49	2.4	20.8	20.8	18.0	14.1	3.9	11.3	11.1	9/1/94
Capital Guardian - Net		2.4	20.2	20.2	17.5	13.5	3.4	10.7	10.5	
vs. EAFE + 1%		3.2	27.8	27.9	21.4	16.4	5.8	9.1	8.6	
CPI + 6.7% (1 Month in Arrears)		0.4	8.5	8.7	9.7	9.3	9.3	9.1	9.2	
Grantham, Mayo	166.35	3.1	26.8	26.8	23.7	23.5	14.3	13.1	12.7	4/13/95
Grantham, Mayo - Net		3.1	25.9	25.9	22.8	22.6	13.5	12.3	11.9	
vs. EAFE + 1%		3.2	27.8	27.9	21.4	16.4	5.8	9.1	8.9	
CPI + 6.7% (1 Month in Arrears)		0.4	8.5	8.7	9.7	9.3	9.3	9.1	9.2	

Policy Measures are Highlighted

**MANAGER REPORTED PERFORMANCE**  
**As of December 31, 2006**

<b>INTERNATIONAL SMALL CAP EQUITY MANAGER</b>	<b>Assets (\$ millions)</b>	<b>December</b>	<b>Year To Date</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>7 Yrs</b>	<b>10 Yrs</b>	<b>Since Inception</b>	<b>Inception Date</b>
Capital Guardian	66.10	4.2	22.7	22.7	31.8	25.9	9.5	N/A	12.3	10/31/97
Capital Guardian - Net		4.2	22.1	22.1	31.1	25.2	8.8	N/A	11.7	
vs. MSCI World Ex U.S. Small Cap + 1%		2.9	18.5	18.6	23.4	22.4	12.3	8.4	10.4	
CPI + 6.9% (1 Month in Arrears)		0.4	8.7	8.9	9.9	9.5	9.5	9.3	9.4	
<b>CORE FIXED INCOME MANAGERS</b>										
JPMorganChase	111.26	-0.6	4.6	4.6	N/A	N/A	N/A	N/A	5.7	11/1/05
JPMorganChase - Net		-0.6	4.4	4.4	N/A	N/A	N/A	N/A	5.4	
vs. LB G/C + 0.5%		-0.7	4.2	4.3	3.9	5.7	7.1	6.8	5.0	
LB Aggregate + 0.5%		-0.5	4.8	4.8	4.2	5.6	7.0	6.7	5.4	
CPI + 2.6% (1 Month in Arrears)		0.1	4.8	4.6	5.6	5.2	5.2	5.0	3.7	
Mellon Capital Management	284.67	-0.6	4.4	4.4	3.7	5.1	6.5	6.3	6.1	1/31/96
Mellon Capital Management - Net		-0.6	4.3	4.3	3.7	5.0	6.5	6.3	6.0	
vs. LB Aggregate		-0.6	4.3	4.3	3.7	5.1	6.5	6.2	6.0	
Loomis, Sayles	97.86	-1.2	6.8	6.8	5.9	9.0	9.7	8.4	9.9	6/30/91
Loomis, Sayles - Net		-1.2	6.7	6.7	5.8	8.9	9.6	8.3	9.8	
vs. Fixed Income Reference Index + 0.5% (1)		-0.5	4.8	4.8	4.2	5.6	5.6	6.9	8.0	
LB Aggregate + 0.5%		-0.5	4.8	4.8	4.2	5.6	5.6	6.7	7.8	
CPI + 2.6% (1 Month in Arrears)		0.1	4.8	4.6	5.6	5.2	5.2	5.0	5.3	

(1) The Fixed Income Reference Index consists of the 50/50 benchmark until May 1999 and the Lehman Brothers Aggregate Index thereafter.

Policy Measures are Highlighted

**MANAGER REPORTED PERFORMANCE**  
**As of December 31, 2006**

<b>HIGH YIELD FIXED INCOME MANAGER</b>	<b>Assets (\$ millions)</b>	<b>December</b>	<b>Year To Date</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>7 Yrs</b>	<b>10 Yrs</b>	<b>Since Inception</b>	<b>Inception Date</b>
Loomis, Sayles	146.55	0.6	10.5	10.5	9.0	12.2	10.2	9.3	12.5	11/30/82
Loomis, Sayles - Net		0.6	10.4	10.4	8.9	12.1	10.0	9.1	12.3	
vs. Merrill Lynch High Yield + 1.5%		1.2	13.0	13.1	9.8	11.3	8.8	8.4	N/A	
CPI + 5.0% (1 Month in Arrears)		0.3	7.0	7.0	8.0	7.6	7.6	7.4	N/A	
<b>REAL ESTATE MANAGERS</b>										
ING Clarion Real Estate Securities	79.55	-1.6	37.5	37.5	28.0	24.7	23.1	15.3	15.3	1/13/97
ING Clarion Real Estate Securities - Net		-1.6	37.1	37.1	27.6	24.3	22.6	14.8	14.8	
vs. Wilshire REIT Index + 1%		-2.1	37.1	37.1	28.4	24.9	24.1	16.3	16.3	
MSCI US REIT Index + 1%		-1.7	35.9	36.9	27.1	24.2	23.2	15.3	15.3	
CPI + 5.9% (1 Month in Arrears)		0.3	7.8	7.9	8.9	8.5	8.5	8.3	8.3	
<b>VENTURE CAPITAL MANAGERS</b>										
Adams Street Partners (1)	18.30	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	10/1/92
Adams Street Partners (1)	1.70	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	1/2005
Progress (1)	0.80	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	7/1/95

(1) Market value is as of June 30, 2006

Policy Measures are Highlighted

**ASSET ALLOCATION**  
**As of December 31, 2006**

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
<b>Total Large Cap Equity</b>	<b>19.7 %</b>	<b>20.0 %</b>	<b>17.0 %</b>	<b>25.0 %</b>
Boston Partners	7.8			
Mellon Capital Russell 1000 Growth	4.5			
Mellon Capital S&P 500	7.4			
<b>Total Medium Cap Equity</b>	<b>7.2 %</b>	<b>6.0 %</b>	<b>4.0 %</b>	<b>7.5 %</b>
Artisan Partners	2.1			
Hotchkis & Wiley	2.1			
EARNEST Partners	2.1			
Reinhart & Mahoney	0.8			
<b>Total Small Cap Equity</b>	<b>5.7 %</b>	<b>5.0 %</b>	<b>3.0 %</b>	<b>6.5 %</b>
Westfield	3.0			
AQR	2.7			
<b>Total International Equity</b>	<b>16.1 %</b>	<b>16.0 %</b>	<b>11.0 %</b>	<b>21.0 %</b>
Capital Guardian	5.8			
Grantham, Mayo	10.3			
<b>Int'l Small Cap Equity</b>	<b>4.1 %</b>	<b>4.0 %</b>	<b>0.0 %</b>	<b>7.0 %</b>
Capital Guardian	4.1			
<b>Venture Capital</b>	<b>1.3 %</b>	<b>3.0 %</b>	<b>0.0 %</b>	<b>5.0 %</b>
<b>TOTAL EQUITY</b>	<b>54.1 %</b>	<b>54.0 %</b>	<b>37.0 %</b>	<b>74.0 %</b>

**ASSET ALLOCATION**  
**As of December 31, 2006**

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
<b>Total Core Fixed Income</b>	<b>30.6 %</b>	<b>35.0 %</b>	<b>31.0 %</b>	<b>41.0 %</b>
JP Morgan	6.9			
NCM	0.0			
Mellon Capital	17.6			
Loomis, Sayles	6.1			
<b>High-Yield Fixed Income</b>	<b>9.1 %</b>	<b>7.0 %</b>	<b>5.0 %</b>	<b>9.0 %</b>
Loomis, Sayles	9.1 %			
<b>Cash</b>	<b>1.2 %</b>	<b>1.0 %</b>	<b>0.0 %</b>	<b>5.0 %</b>
<b>TOTAL FIXED INCOME</b>	<b>40.9 %</b>	<b>43.0 %</b>	<b>34.0 %</b>	<b>55.0 %</b>
<b>REAL ESTATE</b>	<b>4.9 %</b>	<b>3.0 %</b>	<b>0.0 %</b>	<b>7.5 %</b>
<b>ALTERNATIVE INVESTMENTS</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>
<b>TOTAL</b>	<b>100.0 %</b>	<b>100.0 %</b>		



**Average Credit Quality  
of current Fixed Income managers**

JPMorgan	AA+
Mellon Capital Management:	AA1/AA2
Loomis Investment Grade:	AA-
Loomis High Yield:	BB

### Mercer Ratings for Current Managers

<b><i>Large Cap Eq</i></b>	<b>Mercer Rating</b>	<b><i>Int'l Small Cap Eq</i></b>	<b>Mercer Rating</b>
Boston Partners	A	Cap. Guardian	B
Mellon Russell 1000 Growth	A		
Mellon S&P 500	A		
		<b><i>Core Fixed</i></b>	
		JP Morgan	A
		Mellon	A
		Loomis, Sayles	B+(T)
<b><i>Mid &amp; Small Cap Eq</i></b>			
Artisan	B+		
Hotchkis & Wiley	A		
EARNEST Partners	B+		
Reinhart & Mahoney	B		
Westfield	B+		
AQR	A		
		<b><i>High Yield Fixed</i></b>	
		Loomis, Sayles	B+(T)
<b><i>Int'l Eq</i></b>			
Cap. Guardian	B+		
Grantham, Mayo Intl Intrinsic Value	A		
Grantham, Mayo Intl Small Company	A		
		<b><i>Real Estate</i></b>	
		ING Clarion	N

**The Employees' Retirement System of the County of Milwaukee  
Proposed Investment Manager Due Diligence 2007**

<u>Date</u>	<u>Managers Invited to Present</u>
17-January	Hotchkis & Wiley
14-February	EARNEST Partners
21-February	Reinhart & Mahoney
15-March	Artisan *
19-April	Boston Partners
17-May	
21-June	Adam Street Partners
19-July	ING Clarion
16-August	Westfield Capital & Acadian
20-September	Capital Guardian and GMO
18-October	
15-November	Loomis Sayles (both Core and High Yield)
20-December	JP Morgan

\*Subject to additional performance review at the Investment Committee meeting prior to the Pension Board meeting. Managers are not required to attend Investment Committee meetings.

**Notes:**

The format and timings of all investment manager presentations are to be dictated by the Pension Board. Suggested discussion outline attached for all but venture capital, real estate managers and Loomis Sayles (who have to present two strategies under management). The middle of the year has been deliberately left less crowded to allow manager presentations to be brought forward should issues arise. This would also serve to free up the final quarter of the year.

# MERCER

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